

STATE OF ILLINOIS

DEPARTMENT OF INSURANCE



IN THE MATTER OF THE EXAMINATION OF:

STATE FARM FIRE AND
CASUALTY COMPANY
ONE STATE FARM PLAZA
BLOOMINGTON, IL 61710

MARKET CONDUCT EXAMINATION WARRANT

I, the undersigned, Director of Insurance of the State of Illinois, pursuant to Sections 132, 401, 402, 403 and 425 of the Illinois Insurance Code (215 ILCS 5/132, 5/401, 5/402 and 5/425) do hereby appoint Examiner-In-Charge, Bernie Sullivan and associates as the proper persons to examine the insurance business and affairs of State Farm Fire and Casualty Company, NAIC # 25143, and to make a full and true report to me of the examination made by them of State Farm Fire and Casualty Company, with a full statement of the condition and operation of the business and affairs of State Farm Fire and Casualty Company with any other information as shall in their opinion be requisite to furnish me a statement of the condition and operation of its business and affairs and the manner in which it conducts its business. The costs of this examination shall be borne by the company.

The persons so appointed shall also have the power to administer oaths and to examine any person concerning the business, conduct, or affairs of State Farm Fire and Casualty Company.



IN TESTIMONY WHEREOF, I hereto set my hand and cause to be affixed this Seal.

Done at the City of Springfield, this 20th day of March, 2012.


Andrew Boron

Director

STATE OF ILLINOIS)
) SS
COUNTY OF SANGAMON)

I personally served a copy of the within Warrant by leaving
said copy with Mike Mooreberg, at the hour of 9:15 Am
on 5/21, A.D., 2012.

Bernard Sullivan Jr.
Examiner

This Market Conduct Examination was conducted pursuant to Sections 5/132, 5/401, 5/402, 5/403, and 5/425 of the Illinois Insurance Code (215 ILCS 5/132, 5/401, 5/402, 5/403 and 5/425). It was conducted in accordance with standard procedures of the Market Conduct Examination Section by duly qualified examiners of the Illinois Department of Insurance.

This report is divided into five parts. They are as follows: Summary, Background, Methodology, Findings and Technical Appendices. All files reviewed were reviewed on the basis of the files' contents at the time of the examination. Unless otherwise noted, all overcharges (underwriting) and/or underpayments (claims) were reimbursed during the course of the examination.

No company, corporation, or individual shall use this report or any statement, excerpt, portion, or section thereof for any advertising, marketing or solicitation purpose. Any company, corporation or individual action contrary to the above shall be deemed a violation of Section 149 of the Illinois Insurance Code (215 ILCS 5/149).

The Examiner-in-Charge was responsible for the conduct of this examination. The Examiner-in-Charge did approve of each criticism contained herein and has sworn to the accuracy of this report.

**Helen Kim
Staff Attorney**

State Farm Mutual Automobile Insurance Company
State Farm Fire & Casualty Company

MARKET CONDUCT RE-EXAMINATION REPORT

DATE OF RE-EXAMINATION: May 21, 2012, through August 17, 2012

EXAMINATION OF: State Farm Mutual Automobile Insurance Company
(Domestic Mutual) NAIC #25178

State Farm Fire & Casualty Company
(Domestic Stock) NAIC #25143

LOCATION: 2702 Ireland Grove Rd
Bloomington, IL 61709

**PERIOD COVERED BY
RE-EXAMINATION:** March 1, 2011, through February 29, 2012

EXAMINERS: Bernie Sullivan Jr. LUTCF
Examiner-in-Charge

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I. COMPLIANCE:

State Farm Mutual Automobile Insurance Company and State Farm Fire & Casualty Company (collectively "State Farm"), were previously the subject of a market conduct examination completed November 21, 2008, covering the period April 1, 2007, through March 31, 2008.

Based upon the findings of the previous examination the following sixteen Orders were issued in a Stipulation and Consent Order entered into with the Director of Insurance, State of Illinois ("Director"), and State Farm on October 19, 2011.

ORDER #1: "Institute and implement procedures consistent with 215 ILCS 5/143.10a which requires that the Companies provide loss information to the first named insured within 30 days of the insured's request."

Finding: State Farm Fire and Casualty Company is substantially complying with this Order.

ORDER #2: "Institute and implement procedures consistent with 215 ILCS 143.14 subsection (a) which requires that Companies maintain proofs of mailing for all notices of cancellation."

Finding: State Farm is substantially complying with this Order.

ORDER #3: "Institute and implement procedures consistent with 215 ILCS 5/143.15 which requires that all notices of cancellation include a specific explanation of the reason or reasons for cancellation."

Finding: State Farm is substantially complying with this Order.

ORDER #4: "Institute and implement procedures consistent with 215 ILCS 5/143.16 regarding all notices of cancellation to which Insurance Code Section 143.11 applies, except for those defined in subsections (a), (b), and (c) of Section 143.13, which requires that:

- a. at least 30 days notice of cancellation be provided during the first 60 days of coverage except that 10 days notice of cancellation is required where cancellation is for nonpayment, and
- b. at least 60 days notice of cancellation be provided after coverage has been effective for 61 days or more or except that 10 days notice of cancellation is required where the cancellation is for nonpayment of premium. Section 143.16 further requires that all notices of cancellation include a specific explanation of the reason or reasons for cancellation."

Finding: State Farm is substantially complying with this Order.

ORDER #5 "Institute and implement procedures consistent with 215 ILCS 5/143.16a which provides that no policy which has been in effect for 60 days and to which Insurance Code Section 143.11 applies, except to those defined in subsection (a) or (b) of Section 143.13, may be cancelled except for one of the reasons set forth in 143.16a."

Finding: State Farm Fire and Casualty Company is substantially complying with this Order.

ORDER #6: "Institute and implement procedures consistent with 215 ILCS 5/143.17, which applies to policy of insurance, as defined in subsections (a), (b), (c) and (h) of Section 143.13, to which Section 143.11 applies, and which requires that all notices of nonrenewal include a specific explanation of the reason or reasons for nonrenewal. Section 143.17 also requires that the companies maintain proof of mailing."

Finding: State Farm is substantially complying with this Order.

ORDER #7: "Institute and implement procedures consistent with 215 ILCS 5/143.17a, which applies to any policy of insurance, to which Section 143.11 applies, except for those defined in subsections (a), (b), (c) and (h) of Section 143.13, and which requires that all notices of nonrenewal include a specific explanation of the reason or reasons for nonrenewal. Section 143.17a also requires that the Companies maintain proof of mailing."

Finding: State Farm is substantially complying with this Order.

ORDER #8: "Institute and implement procedures consistent with 215 ILCS 143.23 which requires that all notices of cancellation or nonrenewal pursuant to Insurance Code Section 143.16a and 143.19 through 143.24 advise the insured of the insured's right to appeal to the Director the cancellation or nonrenewal and the procedures to follow for such appeal."

Finding: State Farm Fire and Casualty Company is not substantially complying with this Order.

ORDER#9: "Institute and implement procedures consistent with 215 ILCS 5/143b and 50 Ill. Adm. Code 919.50(a) which requires that a personal automobile insurer which has successfully recovered subrogation shall return the insured's pro rata share of the deductible in a timely manner (within 30 days)"

Finding: State Farm is substantially complying with this Order.

ORDER #10: "Institute and implement procedures consistent with 215 ILCS 5/805.1 which requires that when mine subsidence coverage is provided, the premium for mine subsidence coverage be separately stated."

Finding: State Farm Fire and Casualty Company is substantially complying with this Order.

ORDER #11: "Institute and implement procedures consistent with 215 ILCS 5/805.1 which requires that when mine subsidence coverage is not provided the Companies shall maintain the waiver of the mine subsidence signed by the insured."

Finding: State Farm Fire and Casualty Company is substantially complying with this Order.

ORDER #12: "Institute and implement procedures consistent with Title 50 Illinois Administrative Code 919.80(b)(2) which provides that if the first party physical damage automobile claim remains unresolved for more than 40 calendar days from the date it is reported, the insurer shall provide a reasonable written explanation for the delay to the insured. Notice of Availability of the Department of Insurance shall accompany the written explanation."

Finding: State Farm is not substantially complying with this Order.

ORDER #13: "Institute and implement procedures consistent with Title 50 Illinois Administrative Code 919.80(b)(3) which provides that if an automobile property damage liability claim remains unresolved in excess of 60 calendar days from the date it is reported, the insurer shall provide a reasonable written explanation for the delay to the third party claimant. Notice of Availability of the Department of Insurance shall accompany the written explanation."

Finding: State Farm is not substantially complying with this Order.

ORDER #14: "Institute and implement procedures consistent with Title 50 Illinois Administrative Code 919.80(d)7B which provides that if a claim on a policy of fire and extended coverage insurance, as defined in Section 143.13 of the Illinois Insurance Code [215 ILCS 5/143.13], remains unresolved for more than 75 calendar days from the date it is reported, or 25 calendar days after receipt of proof of loss, whichever is less, the insurer shall provide a reasonable written explanation for the delay to the insured. Notice of Availability of the Department of Insurance shall accompany the written explanation."

Finding: State Farm Fire and Casualty is not substantially complying with this Order.

ORDER #15: "Institute and implement procedures consistent with Title 50 Illinois Administrative Code 919.80(d)2 which provides that in automobile property damage liability claims in which liability is reasonably clear, the insurer shall pay for the reasonable and necessary costs, in direct proportion to the extent of its liability, incurred in the rental of another automobile provided that where the insurer pays a flat rental amount per day, week or month, the insurer must disclose to the claimant where the claimant can obtain a vehicle for the amount of its payment."

Finding: State Farm is substantially complying with this Order.

ORDER #16: "Institute and implement procedures consistent with 820 ILCS 305/19 subsection (o) which provides that by the 15th day of each month, each insurer providing coverage for losses under the Workers Compensation Act shall notify each insured employer of any compensable claim incurred during the preceding month and the amounts paid or reserved on the claim including a summary of the claim and a brief statement of the reasons for compensability. A cumulative report of all claims incurred during a calendar year or continued from the previous year shall be furnished to the insured employer by the insurer within 30 days after the end of the calendar year."

Finding: State Farm Fire and Casualty is substantially complying with this Order.

ORDER #17: "Submit proof of compliance with the above sixteen (16) Orders to the Director within thirty days of the date of this Order."

ORDER #18: "The Companies shall pay to the Director a civil forfeiture of sixty thousand dollars (\$60,000). Twenty thousand dollars (\$20,000) shall be paid within 30 days of the date of this Order. The remaining forty thousand dollars (\$40,000) will be paid pending the results of an examination of compliance with Orders number one (1) through sixteen (16) above."

II. SUMMARY

State Farm was previously the subject of a market conduct examination completed November 21, 2008, covering the period April 1, 2007 through March 31, 2008.

Based upon the findings of that examination, sixteen Orders were agreed to in a Stipulation and Consent Order entered into by the Director and State Farm on October 19, 2011.

Upon conclusion of this examination State Farm was found to be substantially complying with 12 of those Orders but failed to substantially comply as follows:

1. State Farm Fire and Casualty Company was criticized under 215 ILCS 5/143.23 for failing to advise the insured of the insured's right to appeal to the Department and the procedure to follow for such appeal. General trend criticisms were issued in the commercial cancellation and farm/ranch nonrenewal surveys since this is a violation of Order #8 of the Stipulation and Consent Orders issued by the Director on October 19, 2011.
2. State Farm was criticized under 50 Ill. Adm. Code 919.80(b)(3) for failing to provide a reasonable written explanation for delay when the claim remained unresolved in excess of 60 calendar days from the date of report. A general trend criticism was issued in the third party closed without payment survey and a class trend criticism was issued in the third party paid & median survey. This is also a violation of Order #13 of the Stipulation and Consent Orders issued on October 19, 2011.
3. State Farm was criticized under 50 Ill. Adm. Code 919.80(b)(2) for failing to provide a reasonable written explanation for delay when the claim remained unresolved for more than 40 calendar days from the date of report. A class trend criticism was issued in the total loss paid survey. This is also a violation of Order #12 of the Stipulation and Consent Orders issued on October 19, 2011.
4. State Farm Fire and Casualty Company was criticized under 50 Ill. Adm. Code 919.80(d)(7)(B) for failing to provide a reasonable written explanation for delay when the claim remained unresolved for more than 75 calendar days from the date of report. Class trend criticisms were issued in the homeowner paid, homeowner closed without payment, residential fire paid and residential fire closed without payment surveys. This is also a violation of Order #14 of the Stipulation and Consent Orders issued on October 19, 2011.

III. BACKGROUND:

The following companies were the subject of the Market Conduct Examination.

STATE FARM MUTUAL AUTOMOBILE INSURANCE COMPANY

HISTORY

State Farm Mutual Automobile Insurance Company was incorporated on March 29, 1922 under the Uniform Mutual Law of Illinois and commenced business June 7, 1922.

MANAGEMENT

The official staff is headed by Edward B. Rust, Jr., chairman and chief executive officer, who has served State Farm since 1975. He assumed the duties of vice president in 1981 and executive vice president in 1983; he was named chairman, president and chief executive officer in 1985. Mr. Rust serves as president of State Farm Fire and Casualty Company (NAIC #25143), State Farm Life Insurance Company (NAIC #69108), State Farm Life and Accident Assurance Company (NAIC #69094), and State Farm Annuity and Life Insurance Company (NAIC #94498).

REGULATORY

An examination of the financial condition was made as of December 31, 2011 by the Illinois Department of Insurance ("Department"). The 2011 annual independent audit of the company was conducted by PricewaterhouseCoopers, LLP. The annual statement of actuarial opinion is provided by Christopher Walker, FCAS, MAAA, PricewaterhouseCoopers, LLP.

TERRITORY

The company is licensed in the District of Columbia and all states. It is also licensed in Canada in the provinces of Alberta, New Brunswick and Ontario.

State Farm Mutual Automobile Insurance Company's 2011 NAIC Annual Statement Page 19 (Illinois) reflects the following:

	Line	Direct premium written	Direct premium earned	Direct losses paid	Direct losses incurred
13	Group accident & health ("A&H")	\$21,460,478	\$21,460,478	\$21,681,967	21,678,787\$
14	Credit A&H (group & individual)	\$416,390	\$451,083	\$280,601	\$202,718
15.3	Guaranteed renewable A&H	\$30,445,753	\$21,993,009	\$17,417,828	\$19,620,931
15.4	Non-renewable for stated reasons only	\$4,543,654	\$4,794,917	\$3,445,212	\$2,238,687
15.5	Other Accident only	\$443	\$462	\$0	\$-173
15.7	All other A&H	\$2,399,988	\$2,437,739	\$1,155,483	\$1,132,256
17.1	Other liability - occurrence	\$978,259	\$958,350	\$0	\$-260,372
19.1	Private passenger auto no-fault (personal injury protection)	\$0	\$0	\$2,219,380	\$1,262,675
19.2	Private passenger auto liability	\$1,019,765,402	\$1,005,422,716	\$550,344,963	\$474,915,054
19.3	Commercial auto no-fault (personal injury protection)	\$0	\$0	\$416	\$-5,052
19.4	Other commercial auto liability	\$10,676,510	\$10,717,339	\$5,813,724	\$5,283,103
21.1	Private passenger auto physical damage	\$642,576,188	\$657,646,026	\$567,627,855	\$564,908,596
21.2	Commercial auto physical damage	\$3,272,278	\$3,322,243	\$1,779,076	\$1,767,999
	Totals	\$1,736,535,342	\$1,729,204,362	\$1,171,766,504	\$1,092,745,208

STATE FARM FIRE AND CASUALTY INSURANCE COMPANY

HISTORY

State Farm Fire and Casualty Company is a result of a merger between State Farm Fire Insurance Company and State Farm Casualty Company on July 1, 1950. State Farm Fire Insurance Company, sponsored by interests identified with the State Farm Mutual Automobile Insurance Company of Bloomington, Illinois, was organized on June 12, 1935, under the laws of Illinois. It was licensed and commenced business on June 29, 1935.

Capital paid up is \$10,000,000. Authorized capital comprises 250,000 shares of \$100 par value each, 100,000 of which are issued and outstanding.

REGULATORY

An examination of the financial condition was made as of December 31, 2010 by the Department. The 2011 annual independent audit of the company was conducted by PricewaterhouseCoopers, LLP. The annual statement of actuarial opinion is provided by Christopher Walker, FCAS, MAAA, PricewaterhouseCoopers, LLP.

TERRITORY

The company is licensed in the District of Columbia and all states. It is also licensed in Canada in the provinces of Alberta, New Brunswick and Ontario.

State Farm Fire and Casualty Company's 2011 NAIC Annual Statement Page 19 (Illinois) reflects the following:

	Line	Direct premium written	Direct premium earned	Direct losses paid	Direct losses incurred
01	Fire	\$197,782	\$193,031	\$283,454	\$265,935
02.1	Allied lines	\$575,210	\$575,001	\$416,688	\$427,484
02.2	Multiple peril crop	\$2,692,212	\$2,707,961	\$917,731	\$917,731
02.3	Federal Flood	\$-44,936	\$2,548,286	\$612,219	\$-785,615
03	Farmowners multiple peril	\$7,709,497	\$7,552,111	\$7,110,206	\$8,330,999
04	Homeowners multiple peril	\$927,837,154	\$924,418,883	\$772,255,889	\$802,251,039
05.1	Commercial multiple peril (non-liability portion)	\$75,246,185	\$76,305,275	\$58,181,348	\$60,644,665
05.2	Commercial multiple peril (liability portion)	\$26,027,281	\$26,323,274	\$17,221,475	\$16,672,365
09	Inland Marine	\$42,866,353	\$42,895,871	\$17,819,543	\$17,776,733
11	Medical professional liability	\$295,135	\$295,424	\$0	\$-305,805
12	Earthquake	\$19,486,852	\$16,733,548	\$225,000	\$215,250
16	Workers' compensation	\$23,145,312	\$24,212,681	\$17,617,416	\$19,054,331
17.1	Other liability - occurrence	\$56,731,240	\$57,379,039	\$29,835,830	\$12,895,671
17.2	Other liability - claims made	\$1,540,661	\$1,506,007	\$105,573	\$585,281
19.1	Private passenger auto no-fault (personal injury protection)	\$0	\$0	\$127,181	\$94,432
19.2	Private passenger auto liability	\$63,092,981	\$61,396,425	\$36,899,990	\$36,711,982
19.4	Other commercial auto liability	\$708,820	\$697,396	\$133,249	\$41,904
21.1	Private passenger auto physical damage	\$35,457,688	\$35,675,697	\$36,018,212	\$35,952,052
21.2	Commercial auto physical damage	\$243,939	\$241,125	\$105,754	\$95,656
23	Fidelity	\$379,274	\$376,269	\$-20	\$-20
24	Surety	\$674,070	\$693,452	\$101,452	\$68,998
35	Total	\$1,284,862,710	\$1,282,726,758	\$995,988,190	\$1,011,911,068

V. METHODOLOGY:

The market conduct examination places emphasis on an insurer's systems and procedures used in dealing with insureds and claimants. The scope of this market conduct examination was limited to the following general areas.

1. Risk Selection
2. Underwriting
3. Claims

The review of these categories is accomplished through examination of individual underwriting and claim files, written interrogatories and interviews with company personnel. Each of these categories is examined for compliance with the Department's insurance rules and regulations and applicable state laws.

The report concerns itself with improper practices performed with such frequency as to indicate general business practices. Individual criticisms are identified and communicated with the insurer, but not cited in the report if not indicative of a general trend, except to the extent that there were underpayments and/or overpayments.

The following method was used to obtain the required samples and to assure a statistically sound selection. Surveys were developed from State Farm generated Excel spreadsheets. Random statistical printout reports were generated by the examiners and presented to the State Farm for retrieval.

Risk Selection

Cancellations and nonrenewals of existing policyholders were requested on the basis of the effective date of the transaction falling within the period under examination. Cancellations and nonrenewals were reviewed for their compliance with statutory requirements, the accuracy and validity of reasons given and for any possible discrimination.

Underwriting

The underwriting of new applicants for coverage with State Farm was selected based on the inception date of the policy falling within the period under examination. New policies were reviewed for rating accuracy, use of filed rates, use of filed forms, compliance with company underwriting guidelines and to ensure that the coverage provided was as requested by the applicant.

Claims

Claims were requested based on the settlement occurring or the claim file being closed without payment within the period under examination.

All claims were reviewed for compliance with policy contracts and endorsements, applicable sections of the Illinois Insurance Code (215 ILCS 5/1 *et seq.*) and Part 919 (50 Ill. Adm. Code 919).

V. SELECTION OF SAMPLES:

<u>Survey</u>	<u>Population</u>	<u># Reviewed</u>	<u>% Reviewed</u>
Risk Selection:			
Homeowner Cancellations	5561	115	2.06%
Residential Fire Cancellations	950	116	12.21%
Commercial Cancellations	13	13	100.00%
Commercial Nonrenewals	808	102	12.62%
Farm/Ranch Nonrenewals	31	31	100.00%
Underwriting:			
Homeowner New Business	153102	130	.08%
Residential Fire New Business	12696	128	1.00%
Workers Compensation New Business	1742	116	6.66%
Farm/Ranch New Business	343	107	31.19%
Claims:			
First Party Paid & Median	74520	110	.15%
First Party Closed without Payment	42119	80	.18%
Third Party Paid & Median	60316	110	.18%
Third Party Closed without Payment	13778	80	.58%
Subrogation	2301	115	4.99%
Total Losses	9651	100	1.03%
Homeowner Paid & Median	8786	80	.91%
Homeowner Closed without Payment	2109	80	3.79%
Residential Fire Paid & Median	665	80	12.03%
Residential Fire Closed without Payment	184	88	47.82%

VI. FINDINGS:

A. Risk Selections:

1. Homeowner Cancellations

There were no trends or areas of concern

2. Residential Fire Cancellations

Two residential fire cancellation files (1.72% of the 116 files reviewed) indicated that the policy was being cancelled as a result of notification of the initiation of foreclosure proceedings. No effort was made to verify that the foreclosure actually took place. This is a violation of 215 ILCS 5/143.21 as there is no measurable increase in the risk originally accepted until the foreclosed property is no longer occupied.

Policy Number	Effective Date	Date Mailed	Cancel Date	Criticism
[REDACTED]	12/01/06	04/01/11	05/02/11	not a reason after the policy has been effective for 60 days, or if the policy is a renewal policy
[REDACTED]	11/16/07	08/01/11	09/09/11	not a reason after the policy has been effective for 60 days, or if the policy is a renewal policy

3. Commercial Cancellations

Two (2) commercial cancellation files (15.38% of the 13 files reviewed) failed to provide the insured with the required 30 or 60 day advance notice of cancellation as required by 215 ILCS 5/143.16.

Policy Number	Effective Date	Date Mailed	Cancel Date	Criticism
[REDACTED]	11/16/84	01/20/11	03/14/11	the company only provided a 53 day advanced notice
[REDACTED]	08/24/11	09/14/11	10/12/11	the company only provided a 28 day advanced notice

Three (3) commercial cancellation files (23.07% of the 13 files reviewed) failed to advise the insured of the insured's right to appeal to the Department and the procedure to follow for such appeal as required by 215 ILCS 5/143.23. A general trend criticism was issued since this is a violation of Order #8 of the Stipulation and Consent Orders issued by the Director on October 19, 2011.

4. Commercial Nonrenewals

Two (2) commercial nonrenewal files (1.96% of the 102 files reviewed) failed to provide a 60 day advance notice of nonrenewal as required by 215 ILCS 5/143.17(a).

Policy Number	Effective Date	Date Mailed	Nonrenewal Date	Criticism
[REDACTED]	05/23/10	03/25/11	05/23/11	the company only provided a 59 day advanced notice
[REDACTED]	06/15/10	04/29/11	06/15/11	the company only provided a 47 day advanced notice

5. Farm/Ranch Nonrenewals

Four (4) farm/ranch nonrenewal files (12.90% of the 31 files reviewed) failed to advise the insured of his/her right to appeal to the Director and the procedures to follow for such appeal as required by 215 ILCS 5/143.23. This is further a violation of Order #8 of the Stipulation and Consent Orders issued by the Director on October 19, 2011. A general trend criticism was issued.

B. Underwriting:

1. Homeowner New Business

There were no errors in this survey.

2. Residential Fire New Business

There were no errors in this survey.

3. Workers Compensation New Business

There were no errors in this survey.

4. Farm/Ranch New Business

Five (5) farm/ranch new business files (4.67% of the 107 files reviewed) failed to include mine subsidence coverage or maintain a copy of a rejection signed by the insured as required by 215 ILCS 5/805.1 resulting in undercharges totaling \$507.00.

Policy Number	Effective Date	Criticism
██████████	06/19/11	no signed waiver found in file, \$150.00 undercharge to subsidence fund
██████████	03/01/11	no signed waiver found in file, \$133.00 undercharge to subsidence fund
██████████	04/13/11	no signed waiver found in file, \$69.00 undercharge to subsidence fund
██████████	10/21/11	no signed waiver found in file, \$53.00 undercharge to subsidence fund
██████████	09/03/11	no signed waiver found in file, \$102.00 undercharge to subsidence fund

C. Claims

1. First Party Paid & Median

The median payment period was 17 days distributed as follows:

<u>Days</u>	<u>Number</u>	<u>Percentage</u>
0-30	88	80.00%
31-60	17	15.45%
61-90	4	3.64%
91-180	1	0.91%
181-365	0	0.00%
<u>Over 365</u>	<u>0</u>	<u>0.00%</u>
Total	110	100.00%

There were no trends or areas of concern.

2. First Party Closed without Payment

Three (3) first party closed without payment claims (3.75% of the 80 files reviewed) failed to provide a reasonable written explanation for delay when the claim remained unresolved for more than 40 calendar days from the date of report as required by 50 Ill. Adm. Code 919.80(b)(2).

Claim Number	Report Date	Close Date	Criticism
[REDACTED]	10/28/11	12/16/11	claim remained unresolved for 49 days from the date of report without a written explanation for delay
[REDACTED]	11/28/11	01/14/12	claim remained unresolved for 47 days from the date of report without a written explanation for delay
[REDACTED]	01/05/12	02/21/12	claim remained unresolved for 47 days from the date of report without a written explanation for delay

3. Third Party Paid & Median

The median payment period was 22 days without subrogation files included. The median payment period with subrogation files included was 24 days distributed as follows:

<u>Days</u>	<u>Number</u>	<u>Percentage</u>
0-30	68	61.82%
31-60	26	23.64%
61-90	7	6.36%
91-180	7	6.36%
181-365	2	1.82%
<u>Over 365</u>	<u>0</u>	<u>0.00%</u>
Total	110	100.00%

Two (2) third party paid claims (1.82% of the 110 files reviewed) failed to contain detailed documentation as mandated by 50 Ill. Adm. Code 919.30(c).

Three (3) third party paid claims (2.72% of the 110 files reviewed but 100.00% of the files requiring the explanation) failed to provide a reasonable written explanation for delay when the claim remained unresolved in excess of 60 calendar days from the date of report as required by 50 Ill. Adm. Code 919.80(b)(3). A class trend criticism was issued. This is also a violation of Order #13 of the Stipulation and Consent Orders issued on October 19, 2011.

Claim Number	Report Date	Close Date	Criticism
[REDACTED]	07/22/11	01/07/12	claim remained unresolved for 169 days from the date of report without a written explanation for delay
[REDACTED]	09/19/11	02/17/12	claim remained unresolved for 151 days from the date of report without a written explanation for delay
[REDACTED]	12/05/11	02/11/12	claim remained unresolved for 68 days from the date of report without a written explanation for delay

4. Third Party Closed without Payment

One (1) third party closed without payment claim (1.25% of the 80 files reviewed) failed to effectuate a prompt settlement to the claimant after the estimate was received and reviewed in violation of 215 ILCS 5/154.6(d) resulting in a \$564.89 underpayment. The company reimbursed the claimant during the examination.

Two (2) third party closed without payment claims (2.50% of the 80 files reviewed) failed to contain detailed documentation as mandated by 50 Ill. Adm. Code 919.30(c).

Two (2) third party closed without payment claims (2.50% of the 80 files reviewed) failed to provide the claimant with a reasonable explanation of the reason or reasons for denial as mandated by 50 Ill. Adm. Code 919.50(a)(2).

Claim Number	Report Date	Close Date	Criticism
[REDACTED]	09/28/11	10/14/11	no explanation given in the denial
[REDACTED]	12/12/11	01/20/12	denial just stated "not legally liable"

Three (3) third party closed without payment claims (3.75% of the 80 files reviewed) failed to conduct a prompt investigation as mandated by 215 ILCS 5/154.6(c).

Claim Number	Report Date	Close Date	Criticism
[REDACTED]	06/06/11	06/29/11	no contact was attempted with the City of Chicago
[REDACTED]	07/04/11	12/10/11	the police report was ordered on day 99, initial contact was attempted on day 113
[REDACTED]	10/05/11	10/31/11	no attempted contact was found

Eight (8) third party closed without payment claims (10.00% of the 80 files reviewed) failed to provide a reasonable written explanation for delay when the claim remained unresolved in excess of 60 calendar days from the date of report as required by 50 Ill. Adm. Code 919.80(b)(3). A general trend criticism was issued. This is also a violation of Order #13 of the Stipulation and Consent Orders issued on October 19, 2011.

Claim Number	Report Date	Close Date	Criticism
[REDACTED]	07/22/10	09/22/11	claim remained unresolved for 427 days from the date of report without a written explanation for delay
[REDACTED]	05/05/11	08/22/11	claim remained unresolved for 109 days from the date of report without a written explanation for delay
[REDACTED]	08/07/11	11/09/11	claim remained unresolved for 94 days from the date of report without a written explanation for delay
[REDACTED]	08/22/11	01/05/12	claim remained unresolved for 136 days from the date of report without a written explanation for delay
[REDACTED]	08/29/11	02/25/12	claim remained unresolved for 180 days from the date of report without a written explanation for delay
[REDACTED]	10/04/11	11/21/11	claim opened for 48 days from the date of report, file closed while waiting on a estimate
[REDACTED]	10/05/11	04/10/12	claim remained unresolved for 188 days from the date of report without a written explanation for delay
[REDACTED]	10/06/11	11/28/11	claim opened for 53 days from the date of report, assigned an inspection and closed

5. Subrogation


There were no errors found in this survey.

6. Total Losses

The median payment period was 12 days distributed as follows:

<u>Days</u>	<u>Number</u>	<u>Percentage</u>
0-30	83	83.00%
31-60	14	14.00%
61-90	1	1.00%
91-180	2	2.00%
181-365	0	0.00%
<u>Over 365</u>	<u>0</u>	<u>0.00%</u>
Total	100	100.00%

One (1) total loss paid claim (1.00% of the 100 files reviewed) failed to effectuate a fair and equitable settlement as required by 215 ILCS 5/154.6(d) resulting in a \$218.50 underpayment. State Farm paid the underpayment during the course of the examination.

Claim Number	Report Date	Close Date	Criticism
	11/27/11	12/05/11	the company deducted \$200.00 for mileage after the NADA evaluation deducted the same amount, double deduction

Two (2) total loss paid claims (2.00% of the 100 files reviewed) were criticized for failing to provide the information contained in Exhibit A to Part 919, to the insureds within seven (7) days of determination of the total loss as required by 50 Ill. Adm. Code 919.80(c).

Six (6) total loss claims (7.00% of the 100 files reviewed and 75.00% of the eight (8) files requiring the explanation) failed to provide a reasonable written explanation for delay when the claim remained unresolved for more than 40 calendar days from the date of report as required by 50 Ill. Adm. Code 919.80(b)(2). A class trend criticism was issued. This is also a violation of Order #12 of the Stipulation and Consent Orders issued on October 19, 2011.

Claim Number	Report Date	Close Date	Criticism
[REDACTED]	02/10/11	03/25/11	claim remained unresolved for 43 days from the date of report without a written explanation for delay
[REDACTED]	03/10/11	04/25/11	claim remained unresolved for 46 days from the date of report without a written explanation for delay
[REDACTED]	06/02/11	07/21/11	claim remained unresolved for 49 days from the date of report without a written explanation for delay
[REDACTED]	06/10/11	09/26/11	claim remained unresolved for 108 days from the date of report, delay letter was sent on day 90
[REDACTED]	08/09/11	09/22/11	claim opened for 44 days from the date of report, file closed while waiting on a estimate
[REDACTED]	09/08/11	12/22/11	claim remained unresolved for 105 days from the date of report, delay letter was sent on day 81

7. Homeowner Paid & Median

The median payment period was 24 days distributed as follows:

<u>Days</u>	<u>Number</u>	<u>Percentage</u>
0-30	46	57.50%
31-60	13	16.25%
61-90	12	12.50%
91-180	8	10.00%
181-365	3	3.75%
<u>Over 365</u>	<u>0</u>	<u>0.00%</u>
Total	80	100.00%

Two (2) homeowner paid claims (2.50% of the 80 files reviewed but 100.00% of the files requiring the explanation) failed to provide a reasonable written explanation for delay when the claim remained unresolved for more than 75 calendar days from the date of report as required by 50 Ill. Adm. Code 919.80(d)(7)(B). A class trend criticism was issued. This is also a violation of Order #14 of the Stipulation and Consent Orders issued on October 19, 2011.

Claim Number	Report Date	Close Date	Criticism
[REDACTED]	06/28/11	10/17/11	claim remained unresolved for 111 days from the date of report without a written explanation for delay
[REDACTED]	09/25/11	12/16/11	claim remained unresolved for 82 days from the date of report without a written explanation for delay

8. Homeowner Closed without Payment

Two (2) homeowner closed without payment claims (2.50% of the 80 files reviewed) failed to contain sufficient documentation in order to permit reconstruction of the insurer's activities relative to each claim as required by 50 Ill. Adm. Code 919.30(c).

Four (4) homeowner closed without payment claims (5.00% of the 80 files reviewed) either failed to provide a written explanation for denial or failed to include the notice of availability of the Department of Insurance as required by 50 Ill. Adm. Code 919.50(a)(1).

Claim Number	Report Date	Close Date	Criticism
[REDACTED]	09/30/11	06/19/12	no denial was provided the insured
[REDACTED]	11/10/11	11/17/11	the notice of availability of the department was not included in the denial
[REDACTED]	01/16/12	01/18/12	the notice of availability of the department was not included in the denial
[REDACTED]	11/09/11	11/19/11	the notice of availability of the department was not included in the denial

Five (5) homeowner closed without payment claims (6.25% of the 80 files reviewed but 100.00% of the files requiring the explanation) failed to provide a reasonable written explanation for delay when the claim remained unresolved for more than 75 calendar days from the date of report as required by 50 Ill. Adm. Code 919.80(d)(7)(B). A class trend criticism was issued. This is also a violation of Order #14 of the Stipulation and Consent Orders issued on October 19, 2011.

Claim Number	Report Date	Close Date	Criticism
[REDACTED]	06/20/11	09/12/11	claim remained unresolved for 84 days from the date of report without a written explanation for delay
[REDACTED]	09/26/11	12/27/11	claim remained unresolved for 92 days from the date of report without a written explanation for delay
[REDACTED]	09/30/11	06/19/12	claim remained unresolved for 263 days from the date of report without a written explanation for delay
[REDACTED]	10/03/11	12/20/11	claim remained unresolved for 78 days from the date of report without a written explanation for delay
[REDACTED]	11/12/11	02/03/12	claim remained unresolved for 83 days from the date of report without a written explanation for delay

9. Residential Fire Paid & Median

The median payment period was 25 days distributed as follows:

<u>Days</u>	<u>Number</u>	<u>Percentage</u>
0-30	44	55.00%
31-60	18	22.50%
61-90	6	7.50%
91-180	10	12.50%
181-365	2	2.50%
<u>Over 365</u>	<u>0</u>	<u>0.00%</u>
Total	80	100.00%

Five (5) residential fire paid claims (6.25% of the 80 files reviewed) failed to contain detailed documentation to permit reconstruction of the activities of the company relative to the claims as required by 50 Ill. Adm. Code 919.30(c).

Six (6) residential fire paid claims (7.50% of the 80 files reviewed but 100.00% of the files requiring the explanation) failed to provide a reasonable written explanation for delay when the claim remained unresolved for more than 75 calendar days from the date of report as required by 919.80(d)(7)(B). A class trend criticism was issued. This is also a violation of Order #14 of the Stipulation and Consent Orders issued on October 19, 2011.

Claim Number	Report Date	Close Date	Criticism
[REDACTED]	06/30/11	09/21/11	claim remained unresolved for 83 days from the date of report without a written explanation for delay
[REDACTED]	06/17/11	09/26/11	claim remained unresolved for 101 days from the date of report without a written explanation for delay
[REDACTED]	06/30/11	10/07/11	claim remained unresolved for 99 days from the date of report without a written explanation for delay
[REDACTED]	07/23/11	10/12/11	claim remained unresolved for 81 days from the date of report without a written explanation for delay
[REDACTED]	02/01/11	08/09/11	claim remained unresolved for 189 days from the date of report without a written explanation for delay
[REDACTED]	03/01/11	07/01/12	claim remained unresolved for 122 days from the date of report without a written explanation for delay

10. Residential Fire Closed without Payment

Two (2) residential fire closed without payment claims (2.27% of the 88 files reviewed but 100.00% of the files requiring the explanation) failed to provide a reasonable written explanation for delay when the claim remained unresolved for more than 75 calendar days from the date of report as required by 50 Ill. Adm. Code 919.80(d)(7)(B). A class trend criticism was issued. This is also a violation of Order #14 of the Stipulation and Consent Orders issued on October 19, 2011.

Claim Number	Report Date	Close Date	Criticism
[REDACTED]	06/30/11	09/16/11	claim remained unresolved for 78 days from the date of report without a written explanation for delay
[REDACTED]	07/14/11	01/20/12	claim remained unresolved for 190 days from the date of report without a written explanation for delay

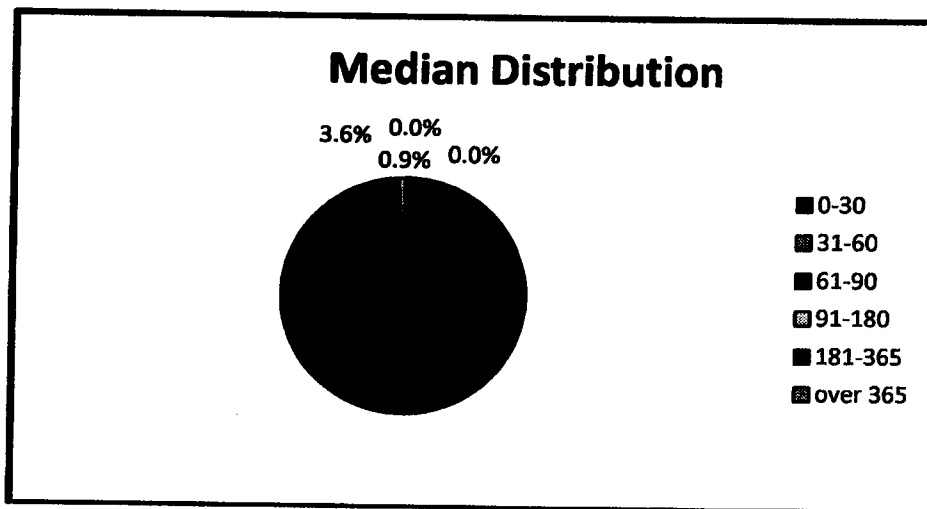
Five (5) residential fire closed without payment claims (5.68% of the 88 files reviewed) either failed to provide a written explanation for denial or failed to include the notice of availability of the Department of Insurance as required by 50 Ill. Adm. Code 919.50(a)(1).

Claim Number	Report Date	Close Date	Criticism
██████████	06/30/11	09/16/11	the Notice of Availability of the Department was not included in the denial
██████████	07/27/11	08/16/11	the Notice of Availability of the Department was not included in the denial
██████████	11/28/11	01/13/12	the Notice of Availability of the Department was not included in the denial
██████████	01/05/12	01/07/12	no denial was provided the insured
██████████	02/02/12	02/27/12	the Notice of Availability of the Department was not included in the denial

VII. TECHNICAL APPENDICES:

FIRST PARTY PAID & MEDIAN

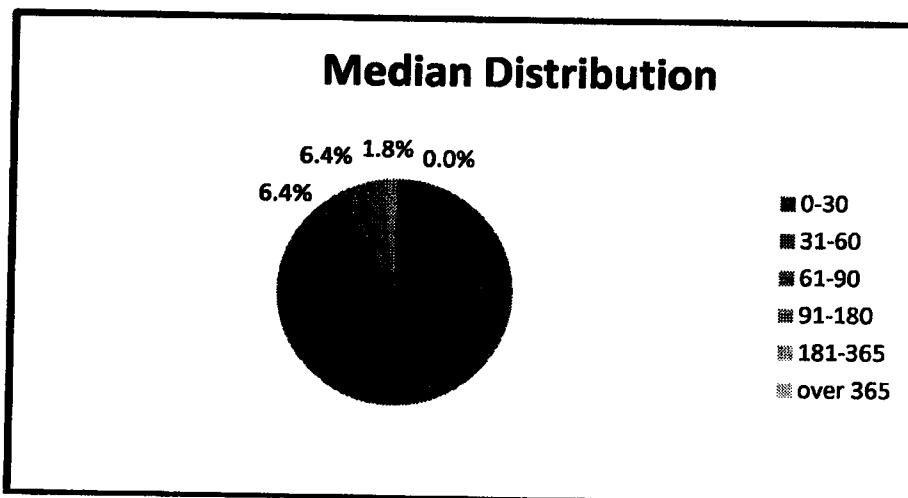
MEDIAN DISTRIBUTION		
No. Days Category	Number	Percent
0-30	88	80.00%
31-60	17	15.45%
61-90	4	3.64%
91-180	1	0.91%
181-365	0	0.00%
over 365	0	0.00%
Total	110	100.00%



VII. TECHNICAL APPENDICES continued:

THIRD PARTY PAID & MEDIAN

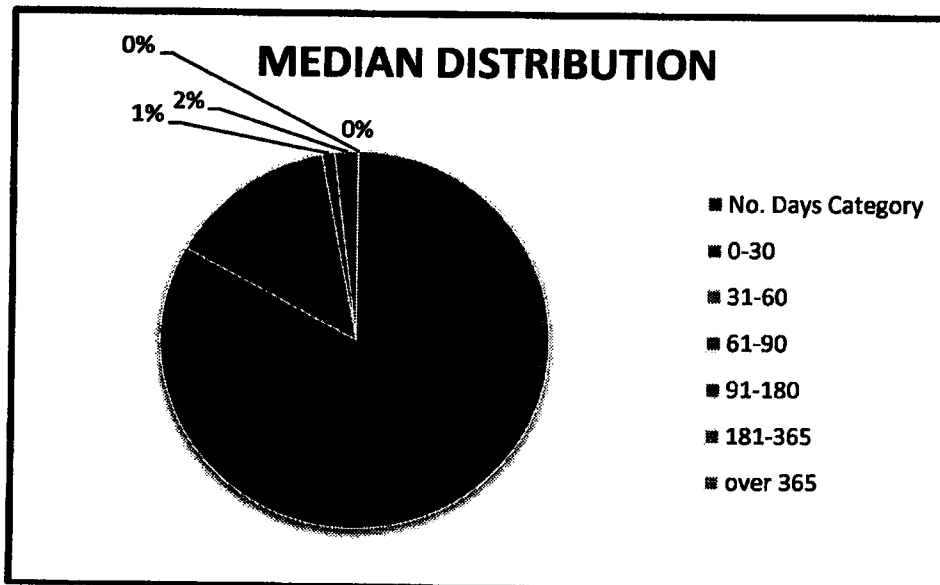
MEDIAN DISTRIBUTION		
No. Days Category	Number	Percent
0-30	68	61.82%
31-60	26	23.64%
61-90	7	6.36%
91-180	7	6.36%
181-365	2	1.82%
over 365	0	0.00%
Total	110	100.00%



VII. TECHNICAL APPENDICES continued:

TOTAL LOSS PAID:

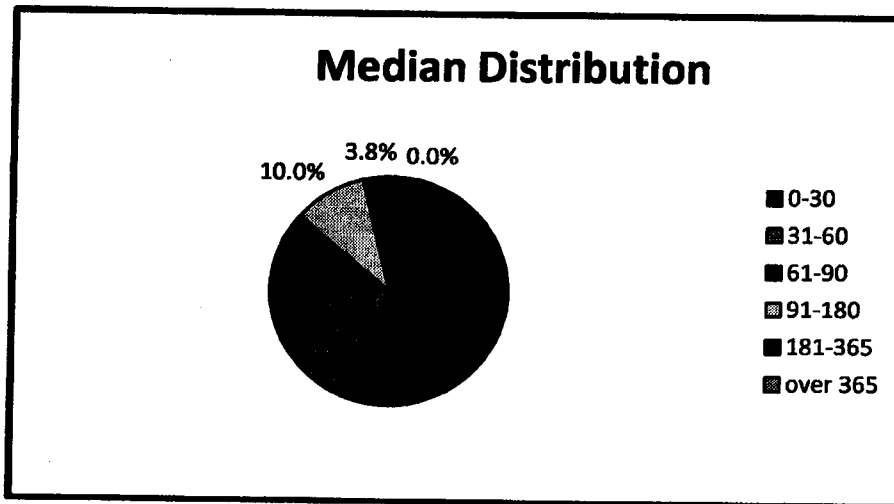
MEDIAN DISTRIBUTION		
No. Days Category	Number	Percent
0-30	83	83.00%
31-60	14	14.00%
61-90	1	1.00%
91-180	2	2.00%
181-365	0	0.00%
over 365	0	0.00%
Total	100	100.00%



VII. TECHNICAL APPENDICES continued:

HOMEOWNER PAID & MEDIAN

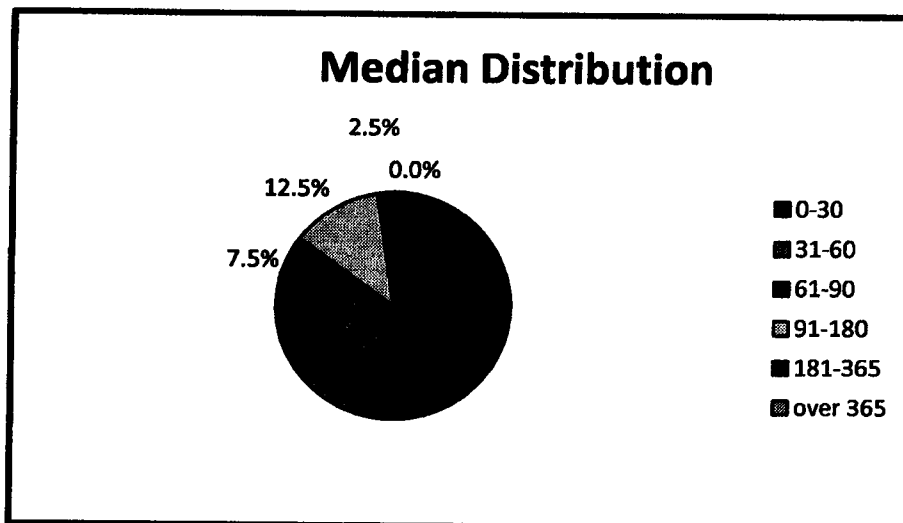
MEDIAN DISTRIBUTION		
No. Days Category	Number	Percent
0-30	46	57.50%
31-60	13	16.25%
61-90	10	12.50%
91-180	8	10.00%
181-365	3	3.75%
over 365	0	0.00%
Total	80	100.00%



VII. TECHNICAL APPENDICES continued:

RESIDENTIAL FIRE PAID & MEDIAN

MEDIAN DISTRIBUTION		
No. Days Category	Number	Percent
0-30	44	55.00%
31-60	18	22.50%
61-90	6	7.50%
91-180	10	12.50%
181-365	2	2.50%
over 365	0	0.00%
Total	80	100.00%



STATE OF ILLINOIS)
) ss
COUNTY OF COOK)

Bernie Sullivan, being first duly sworn upon his oath, deposes and says:

That he was appointed by the Director of Insurance of the State of Illinois as Examiner-in-Charge to examine the insurance business and affairs of:

State Farm Mutual Automobile Insurance Company, NAIC #25178
State Farm Fire & Casualty Company, NAIC #25143

That as Examiner-in-Charge, he was directed to make a full and true report to the Director of the examination, with a full statement of the condition and operation of the business and affairs of the company, with any other information as shall in the opinion of the Examiner-in-Charge be requisite to furnish the Director.

That neither he nor any other persons designated as examiners nor any members of their immediate families is an officer of, connected with, or financially interested in the company nor any of the company's affiliates other than as policyholders, and that neither he nor any other persons designated as examiners nor any members of their immediate families is financially interested in any other corporation or person affected by the examination;

That an examination was made of the affairs of the company pursuant to the authority vested in the Examiner-in-Charge by the Director of Insurance of the State of Illinois;

That he was the Examiner-in-Charge of said examination and the attached report of examination is a full and true statement of the condition and operation of the insurance business and affairs of the company for the period covered by the report as determined by the examiners; and

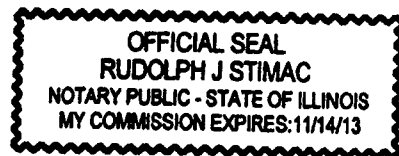
That the report contains only facts ascertained from the books, papers, records, or documents, and other evidence obtained by investigation and examined or ascertained from the testimony of officers or agents or other persons examined under oath concerning the business, affairs, conduct, and performance of the company.

Bernie Sullivan
Bernie Sullivan
Examiner-in-Charge

Subscribed and sworn to before me

This 8TH day of JANUARY, 2013

Rudolph J Stimac
Notary Public





IN THE MATTER OF:

STATE FARM MUTUAL AUTOMOBILE INSURANCE COMPANY
STATE FARM FIRE & CASUALTY COMPANY

STIPULATION AND CONSENT ORDER

WHEREAS, the Director ("Director") of the Illinois Department of Insurance ("Department") is a duly authorized and appointed official of the State of Illinois, having authority and responsibility for the enforcement of the insurance laws of this State; and

WHEREAS, State Farm Mutual Automobile Insurance Company is authorized under the insurance laws of this State and by the Director as domestic mutual company, to engage in the business of soliciting, selling and issuing insurance policies; and

WHEREAS, State Farm Fire and Casualty Company is authorized under the insurance laws of this State and by the Director as domestic stock insurance company, to engage in the business of soliciting, selling and issuing insurance policies; and

WHEREAS, a market conduct re-examination of State Farm Mutual Automobile Insurance Company and State Farm Fire and Casualty Company (collectively "State Farm") was conducted by duly qualified examiners of the Department pursuant to Sections 131.21, 132, 401, 402 and 425 of the Illinois Insurance Code (215 ILCS 5/131.21, 5/132, 5/401, 5/402 and 5/425); and

WHEREAS, the Department filed an examination report as an official document of the Department as a result of the market conduct re-examination; and

WHEREAS, said report cited various areas in which State Farm was not in compliance with the Illinois Insurance Code (215 ILCS 5/1 *et seq.*) and Department Regulations (50 Ill. Adm. Code 101 *et seq.*); and

WHEREAS, nothing herein contained, nor any action taken by or in connection with this Stipulation and Consent Order, shall constitute, or be construed as, an admission of fault, liability or wrongdoing of any kind whatsoever by State Farm.

WHEREAS, State Farm is aware of and understands the various rights in connection with the examination and report, including the right to counsel, notice, hearing and appeal under Sections 132, 401, 402, 407 and 407.2 of the Illinois Insurance Code and 50 Ill. Adm. Code 2402; and

WHEREAS, State Farm understands and agrees that by entering into this Stipulation and Consent Order, it waives any and all rights to notice and hearing; and

WHEREAS, State Farm and the Director, for the purpose of resolving all matters raised by the report and in order to avoid any further administrative action, hereby enter into this Stipulation and Consent Order.

NOW, THEREFORE, IT IS agreed by and between State Farm and the Director as follows:

1. That the market conduct re-examination indicated various areas in which State Farm was not in compliance with provisions of the Illinois Insurance Code and/or Department Regulations; and
2. That the Director and State Farm consent to this Order requiring State Farm to take certain actions to come into compliance with provisions of the Illinois Insurance Code and/or Department Regulations.

THEREFORE, IT IS HEREBY ORDERED by the undersigned Director that:

1. State Farm Fire and Casualty Company shall institute and maintain procedures whereby the companies require that all notices of cancellation or nonrenewal pursuant to 215 ILCS 5/143.16a and 215 ILCS 5/143.19 through 215 ILCS 5/143.23 advise the insured of the insured's right to appeal to the Director the cancellation or nonrenewal and the procedures to follow for such appeal as outlined in 215 ILCS 5/143.23.
2. State Farm shall institute and maintain procedures whereby if the first party physical damage automobile claim remains unresolved for more than 40 calendar days from the date it is reported, the companies shall provide a reasonable written explanation for the delay to the insured accompanied

by a Notice of Availability of the Department of Insurance as outlined in 50 Ill. Adm. Code 919.80(b)(2).

3. State Farm shall institute and maintain procedures whereby if an automobile property damage liability claim remains unresolved in excess of 60 calendar days from the date it is reported, the companies shall provide a reasonable written explanation for the delay to the third party claimant accompanied by a Notice of Availability of the Department of Insurance as outlined in 50 Ill. Adm. Code 919.80(b)(3).
4. State Farm Fire and Casualty Company shall institute and maintain procedures whereby if a claim on a policy of fire and extended coverage insurance, as defined in 215 ILCS 5/143.13, remains unresolved for more than 75 calendar days from the date it is reported, or 25 calendar days after receipt of proof of loss, whichever is less, the companies shall provide a reasonable written explanation for the delay to the third party claimant accompanied by a Notice of Availability of the Department of Insurance as outlined in 50 Ill. Adm. Code 919.80(d)(7)(B).
5. Submit to the Director a civil forfeiture of \$15,000.00 within 30 days of the entry of these Orders. The remaining \$25,000.00 forfeiture noted in Order #18 of the Stipulation and Consent Order issued on October 19, 2011 is hereby waived.
6. Submit to the Director proof of compliance with the above four (4) Orders within 30 days of receipt of these Orders.

NOTHING contained herein shall prohibit the Director from taking any and all appropriate regulatory actions as set forth in the Illinois Insurance Code, including but not limited to levying additional fees, should State Farm violate any of the provisions of this Stipulation and Consent Order or any provisions of the Illinois Insurance Code or Department Regulations.

On behalf of
State Farm Mutual Automobile Insurance Company
State Farm Fire and Casualty Company

Alex Thompson
Signature

Alex Thompson
Name

Vice President Operations
Title

Subscribed and sworn to before me this

28 day of February A.D. 2013.

Cathy Hamm
Notary Public



DEPARTMENT OF INSURANCE of the
State of Illinois;

Date: March 11, 2013

Andrew Boron
Andrew Boron
Director



Illinois Department of Insurance

PAT QUINN
Governor

ANDREW BORON
Director

May 1, 2013

Chuck Feinen, Counsel
State Farm Mutual Automobile Insurance Company
State Farm Fire & Casualty Company
One State Farm Plaza
Bloomington, Illinois 61710

*sent via USPS certified mail
return receipt requested*

Re: Market Conduct Examination Report

Dear Mr. Feinen:

The Department is in response to your April 15, 2013 letter regarding the above matter, along with \$15,000.00 check in payment of the civil forfeiture set forth in Order #5 of the previously executed Stipulation and Consent Order. Your letter also included proof of compliance with respect to Orders #1 - #4 and upon Department's request for additional information, the proof of compliance has been deemed satisfactory. The Department would however appreciate a follow-up regarding the implementation of the automation system in August 2013. Accordingly, the Department is closing its file on this exam.

I would like to take this opportunity to thank you and the employees of State Farm for the courtesy and professionalism extended to the Department and its examiners throughout the examination process. Please be advised that I intend to ask the Director to make the Examination Report available for public inspection as authorized by 215 ILCS 5/132 and as such it may be posted on the Department's website.

Please contact me if you have any questions.

Sincerely,

Helen Kim
Staff Attorney